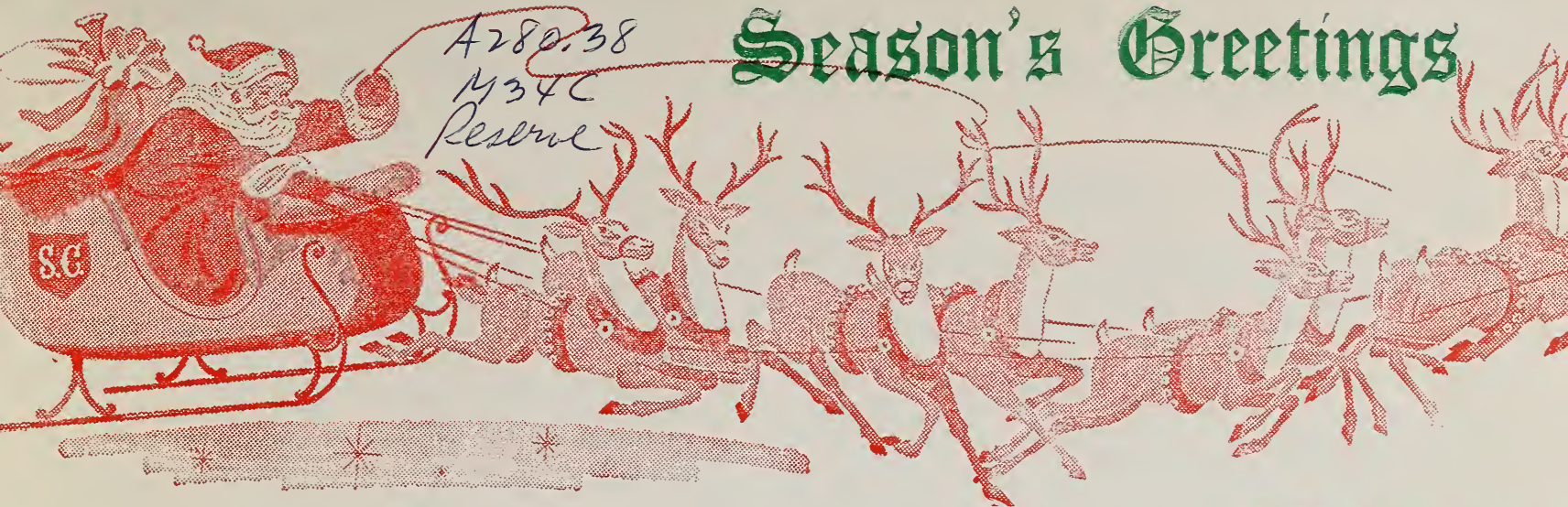


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Season's Greetings

Frank W. Enders
MARKET ADMINISTRATOR

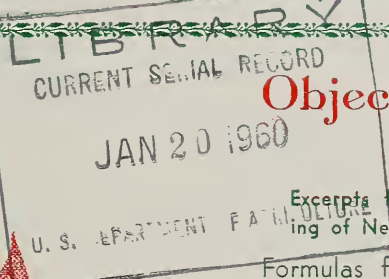
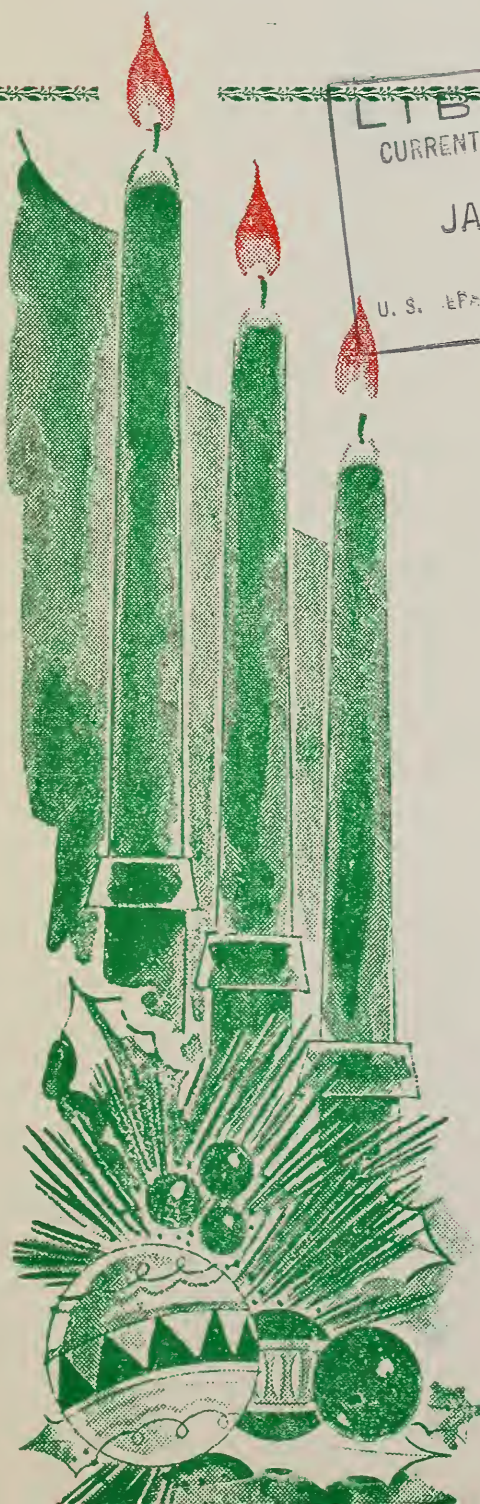
Market Administrator's Bulletin

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ISSUED FOR PRODUCERS WHO ARE NOT MEMBERS OF COOPERATIVE ASSOCIATIONS

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Objectives In Formula Pricing Under Federal Milk Orders

Excerpts from a talk by H. L. Forest, Director, Dairy Division at annual meeting of New England Milk Producers Association at Boston, Mass., October 29, 1959

Formulas for pricing may have a number of objectives. There are formulas of convenience such as those used in butter or cream trading. Prices asked and offered for such products are often expressed as formulas related to some wholesale market butter price. Labor wage rates are adjusted in some instances by formulas using a cost of living index. Retailers often follow the practice of quoting prices at a specified mark-up over wholesale prices.

Milk price formulas which are used by cooperatives may have purposes different from formulas which are used in Federal milk orders. However, in the case of Federal milk orders, the objectives in formula pricing are synonymous with the pricing standards set forth in the Agricultural Marketing Agreement Act. Prices established under these orders must reflect market supply and demand and other economic conditions and such prices must be in the public interest. Formulas are merely the instruments for translating those objectives into prices for designated periods and places.

The formulas in Federal milk orders must be evaluated in the light of changing market conditions. A formula which produced a price in 1947 consistent with the pricing standards of the Marketing Agreement Act may not accomplish the same result today. A formula devised today may very likely prove deficient within a few years. Milk markets and marketing practices are changing rapidly and with these changes, the pattern of price relationships must be revised.

Within the past decade, remarkable progress has been made in improving transportation facilities and methods of handling milk. These improvements permit milk to be moved over long distances. When milk supplies were short in Southwest and Southeast markets during the past year, milk was moved to these areas from points in Iowa and Wisconsin, more than 1,500 miles away.

The technological problem of maintaining good quality milk even on long hauls has been met and satisfactory deliveries have been made. The cost of moving milk over long distances is still a deterrent to regular and continuous deliveries, but further reductions in these costs also may be expected.

The success or failure of any formula pricing plan depends to a large extent on the confidence industry has in the plan. If the plan is ill-devised, industry may have no more confidence in the formula than in month-to-month arbitrary pricing.

(continued on the back page)



Columbus

MARKET FACTS FOR EASY REFERENCE

PRICE SUMMARY

Producers' Uniform Price (3.5%)	
Producers' Uniform Price (4%)	
Class I (3.5%)	
Class II (3.5%)	
Class III (3.5%)	
Class IV (3.5%)	
Producer Butterfat Differential for each 1/10%	

Nov.
1959

Oct.
1959

Nov.
1958

\$5.11
5.51
4.696
4.296
3.927
3.228
.080

\$5.11
5.51
4.697
4.297
3.865
3.116
.080

\$4.37*
4.735
4.434
4.034
3.934
2.887
.073

UTILIZATION SUMMARY

Percent of Producer Milk in Class I	
" " " B.F. " " I	
" " " Milk " " II	
" " " B.F. " " II	
" " " Milk " " III	
" " " B.F. " " III	
" " " Milk " " IV	
" " " B.F. " " IV	

90.6
84.0
6.6
2.6
1.3
3.1
1.5
10.3

92.0
87.9
5.9
2.3
1.0
3.3
1.1
6.5

88.1
85.3
7.9
3.2
1.3
2.5
2.7
9.0

PRODUCTION SUMMARY

Total Pounds of Producer Milk Delivered	
Average Daily Class I Producer Milk	
Total Number of Producers	
Average Daily Production per Producer	
Average Butterfat Test	
Total Value of Producer Milk at Test	
Income per Producer (7 Day Average)	

25,350,698
765.061
1,693
499
4.0
\$1,272,220.92
\$175.34

26,207,693
777,492
1,727
490
3.86
\$1,289,414.79
\$168.59

23,091,764
678,473
1,729
445
3.89
\$1,074,769.81
\$145.04

GROSS CLASS USE (Pounds)

Class I Skim	
" I B.F.	
" I Milk	
" II Skim	
" II B.F.	
" II Milk	

22,107,930
852,655
22,960,585
1,804,671
26,392
1,831,063

23,447,213
893,253
24,340,466
2,182,097
23,983
2,206,080

19,616,368
766,363
20,382,731
1,891,359
29,013
1,920,372

AVERAGE DAILY SALES (Quarts)

Milk	
Buttermilk	
Chocolate	
Skim	
Cream	

295,454
4,890
16,352
11,245
8,827

317,358
5,514
19,517
12,087
9,129

268,197
4,897
13,379
9,378
8,265

*Fall production payment 51 cents per cwt. additional

COMPARATIVE STATISTICS



COLUMBUS MARKETING AREA



Nov., 1950-59

Year	Receipts from Producers	Average Butter-fat Test	Percentage of Producer Milk in Each Class				Uniform Producer Price (3.5%)	Class prices at 3.5%				Number of Producers	Daily Average Production
			Class I	Class II	Class III	Class IV		Class I	Class II	Class III	Class IV		
1950.....	15,470,375	4.21	81.0	13.2	2.8	—	4.21	4.244	3.844	3.168	—	2,151	240
1951.....	14,664,041	4.31	90.0	8.6	.5	—	4.97	4.975	4.575	3.799	—	2,105	232
1952.....	16,751,355	4.19	85.1	12.6	2.3	—	5.18	5.232	4.832	3.75	—	2,205	253
1953.....	20,170,821	4.12	81.8	13.3	4.9	—	4.58	4.71	4.31	3.49	—	2,241	300
1954.....	21,133,079	4.05	81.9	8.2	4.5	5.4	4.15	4.31	3.91	3.91	3.23	2,171	324
1955.....	22,266,699	3.99	81.2	9.1	3.9	5.8	4.12	4.257	3.857	3.857	3.168	2,106	352
1956.....	23,100,784	3.90	83.6	8.8	3.6	4.0	4.40	4.537	4.137	4.137	3.321	1,998	385
1957.....	23,847,569	3.92	85.3	7.8	2.9	4.0	4.37	4.504	4.104	4.004	3.081	1,882	422
1958.....	23,091,764	3.89	88.1	7.9	1.3	2.7	4.37	4.434	4.034	3.934	2.887	1,729	445
1959.....	25,350,698	4.00	90.6	6.6	1.3	1.5	5.11	4.696	4.296	3.927	3.223	1,693	499

CONSUMPTION OF SOME DAIRY PRODUCTS TO DECLINE IN 1960

In the past, particularly years that price or supply controls were not in effect, butter frequently was referred to as the balance wheel for the dairy industry. Its supply would rise with an increase in milk output and drop with decline in milk flow. To a degree it appears likely to serve in this capacity in 1960. Use of creamery butter from commercial sources apparently showed no change between 1958 and 1959 (6.9 pounds per capita), but total use per capita dropped from 8.4 to 8.3 pounds, a new record low, by virtue of the 0.1 pound drop in distribution from CCC supplies. In 1960, considerably smaller quantities probably will be available from CCC supplies. Even with some rise in takings from commercial sources, the per capita use from all sources is likely to decline still further.

The 8.3 pounds for 1959 is less than half the pre-World War II level. Margarine consumption first exceeded butter use in 1957, 8.6 versus 8.4 pounds, and increased to 9.2 pounds in 1959. The pre-World War II average for margarine was 2.9 pounds.

Use of American cheese gained substantially from 1957 to 1958, apparently held at the 1958 level in 1959 and may continue steady through 1960. Distribution from CCC supplies to domestic civilian outlets dropped a half pound per person in 1959 from 1958. But takings from commercial sources apparently increased enough to offset this. A factor in the gain over 1957 is the higher retail price of beef, and the rise in real incomes. There is not likely to be enough change in retail meat prices to affect cheese consumption next year. A more likely development is a rise in retail cheese prices and possibly some slight drop in consumption for that reason.

Use of evaporated milk has dropped every year since 1948. That year it was 18.4 pounds, and for 1959 apparently will be about 11.7 pounds. There is no reason to expect an interruption in this decline in 1960.

Consumption of ice cream and other frozen desserts showed a substantial rise in 1959, apparently reflecting the advance in real consumer incomes, though tem-

peratures also favored heavier use. Low-fat products such as ice milk are realizing the most rapid increases. Consumption of mellorine, a product made mostly of milk solids-not-fat and vegetable fat, seemed to have leveled off in 1956 and 1957, but since has started to rise again. Use of frozen desserts in all likelihood will show some increase in 1960 and subsequent years.

Among the fluid products, indications are that use of cream showed a further drop in its downtrend, fluid whole milk probably increased some, and the skimmed milk products increased substantially. Increased volumes under school milk programs again helped to swell the total, but in 1959 there apparently was some increase for whole milk in strictly commercial channels. Consumption of fluid milk and cream combined is estimated tentatively at 348 pounds for 1959, compared with the postwar low of 345 in 1958, the war-time high (1945) of 399, and prewar level of 330 pounds. Use of whole milk is expected to hold steady in the next year.

FEED PRICE RATIOS FAVORABLE FOR DAIRY PRODUCTS AND BEEF CATTLE

Prices received for slaughter cattle and dairy products during the 1958-1959 feeding year have continued favorable in relation to feed cost. The price of steers sold for slaughter at Chicago averaged \$27.72 per 100 pounds during the 1958-59 feeding season, equivalent in value to 22.9 bushels of corn, No. 3 Yellow. This was well above the 1948-57 average beef

steer-corn ratio of 17.5. Cattle prices are expected to continue high in relation to corn prices during 1959-60, the ratio continuing near the favorable level of the past year.

Milk prices also have been higher than average relative to the cost of dairy rations. During 1958-59, one pound of milk

was equal to 1.41 pounds of dairy feed, well above the 10-year average of 1.29. The butterfat-feed price ratio averaged 24.4 in 1958-59, which was also above the 10-year average. Prices of dairy products are expected to continue favorable to dairymen in 1959-60, probably averaging as high relative to feed as during the past year, if not a little higher.

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Formula Pricing Objectives

(Continued from page one)

On the other hand, if the formula related prices to factors recognized in the industry as motivating price changes, the plan is more likely to succeed.

Certainly an important factor to be considered in aligning prices among markets and regions is transportation cost. It is unrealistic to expect milk prices in one area to exceed more than the cost of transportation for any length of time, the prices in another area where supplies are plentiful.

In order to have some perspective in observing a pattern of prices it is necessary to have some starting or focal point. The large reservoir of milk which is used for manufacturing in the central midwest qualifies that area for this purpose from the standpoint of ample supply.

However, with today's greater mobility of milk supplies and the opportunity for transporting milk over long distances, the radius within which milk supplies can shift has become greater. Potential supplies for eastern markets include the large quantities of milk now being used in manufacturing dairy products in other areas.

The Federal milk order program has been a great service to dairy farmers in this and many other areas for nearly a quarter century. It can serve dairymen effectively in the future but only if the prices established under these orders signal the appropriate adjustments to individual dairymen throughout the country.

Market Quotations

NOV.
1959

12 MIDWEST CONDENSERIES 3.5% per Cwt.	\$3.146
5 CONDENSERIES (Cincinnati) 3.5% per Cwt.	2.960
5 CONDENSERIES (North Central Ohio) 3.5% per Cwt.	3.005
2 CONDENSERIES (Toledo) 3.5% per Cwt.	2.938
4 CONDENSERIES (Tri-State) 3.5% per Cwt.	3.100
Evaporated Milk Code Price, 3.5% per Cwt.	3.019
Skim Milk Powder-Butter Price, 3.5% per Cwt. (Cincinnati)	3.2897
Skim Milk Powder-Butter Price, 3.5% per Cwt. (Columbus)	3.278
Skim Milk Powder-Butter Price, 3.5% per Cwt. (Dayton)	3.302
Skim Milk Powder-Butter Price, 3.5% per Cwt. (Toledo-Tri-State)	3.176
Average Weekly Cheddars price per lb.	.33688
Average price per lb. non-fat dry milk solids, roller process delivered Chicago	.14144
Average price per lb. 92-score butter at Chicago (Equivalent Price)	.6393
Average carlot prices non-fat dry milk solids, roller and spray process, f.o.b. manufacturing plant	.13025

Cash Receipts Likely To Reach New Record In 1960

The parity index, which is used in calculating the dollars-and-cents support levels for dairy products, has been essentially stable since support for the current marketing year was announced last spring. If it continues so, the legal minimum support for these products in 1959-60 will be near that of this year. The actual support levels for the marketing year which begins April 1, 1960 will be announced before that date. In at least part of 1960, prices to farmers for milk and butterfat are likely to exceed this year's levels.

For 1959 the prices to farmers for manufacturing milk will average about \$3.20

per 100 pounds, the same as in 1958. This year, prices were lower in first quarter but have been higher since. The support level this marketing year, as last year, has been \$3.06 per 100 pounds for milk of average fat test. The \$3.06 support level for this marketing year on manufacturing milk is equal to 77 percent of the parity equivalent for such milk. The actual price for manufacturing milk this year, therefore, is between 80 and 81 percent of the parity equivalent for such milk.

The price to farmers for butterfat is likely to average a little higher next year than in 1959. The 1959 average will be a shade above the 58.5 cents of 1958. The 1959 price will be around 80 percent of parity, the same as manufacturing milk.